1. Country and Sector Background

Cambodia emerged in the late 1990’s (December 1998 marked final reintegration of Khmer Rouge) from nearly 30 years of war as one of the world’s poorest countries, with economic capacity and infrastructure severely damaged, social institutions in disarray, and human capacity extremely constrained. In 1997, 36 percent of the total population, about 4.3 million out of nearly 12 million, were judged to live below the poverty line. Also a legacy of war, a staggering 20% of households are female-headed, and these are disproportionately poor.

Poverty is predominantly a rural phenomenon in Cambodia –85 percent of the population and 90 percent of the poor are rural residents and most derive their livelihood principally from farming. Rural poverty results from a complex mix of factors, which together conspire to limit livelihood opportunities both on- and off-farm. Among the most important of the causal factors for poverty are. (a) limited access to productive resources and technologies; (b) remoteness due to weak communications and transport infrastructure; and (c) poor accessibility, non-affordability and inequity of public services, such as agricultural extension, education and health care.

Up to now, the Royal Government of Cambodia’s (RGC) approach to rural development and poverty
reduction has been fragmented, with a large number of donor- and NGO-driven projects. This approach was perhaps justified in the aftermath of the war, when the primary focus was reconciliation and reintegration, the level of suffering of the people was great and the needs for relief urgent, and Government capacity was virtually nonexistent. As reconciliation and reintegration have proceeded and the focus has shifted to development, however, a more coordinated and sustainable approach is needed.

The Seila Program piloted a working model for Government-Donor coordination and partnership, providing a framework for multi-donor financing of rural development and poverty reduction through technical and program support and direct investments in local services and infrastructure. Seila seeks to provide the foundation for rural poverty alleviation and good local governance using a two-pronged approach: (a) developing and strengthening local institutions in support of decentralized and deconcentrated rural development, and (b) providing efficient and effective grant financing for investments in locally managed infrastructure and public services, identified as priorities through a participatory process, at both the provincial and commune levels.

The Royal Government’s Governance Action Plan states that “Government views decentralization, deconcentration and local governance as means to further democratize the country and improve service delivery in the regions”. Moreover, the recently completed Poverty Reduction Strategy Paper recognizes the cross-cutting themes of decentralization and deconcentration as fundamental to rural development and poverty reduction in Cambodia. The stated objectives of the reforms are to: (a) promote democracy, good governance and quality of life, (b) give ordinary people greater opportunities to determine their future, and (c) ensure sustainable development, including the delivery of basic services. The RGC’s strategy is to simultaneously implement both decentralization of political authority through the election of Commune/Sangkat Councils and deconcentration of state functions to provincial governors.

Under the first phase of implementation, 1996-2000, the Seila Program enabled the RGC to formulate and fully test in five provinces deconcentrated and decentralized systems focused on the province and commune as the two sub-national levels for budgeting, planning, financing and implementation of local development. Encouraged by the success of the first phase, a second phase of Seila, 2001-2005, was formulated by the inter-ministerial Seila Task Force in 2000 and approved by the Council of Ministers on 5 January 2001. During Phase II, the Seila Program will provide technical and financial resources for: (a) refining decentralized planning, financing, and management systems for service delivery and local development; (b) providing discretionary budget support to province and commune authorities for investment in services and infrastructure; and (c) providing practically tested lessons for national level policy and regulations for decentralization, deconcentration and poverty alleviation.

To finance these expanded efforts, RGC requested broad-based donor support. The main donors of the first phase of the Seila Program -- United Nations Development Program (UNDP) and the Swedish International Development Cooperation Agency (Sida) -- are joined by the United Kingdom’s Department for International Development (DfID) as the main funders of Seila Phase II through the Partnership for Local Governance (PLG), a UNDP-administered multi-donor trust fund which is the main source of technical assistance and capacity building to the Seila Program. Also, other donors support specific thematic areas through the Seila Program or using Seila piloted mechanisms at the provincial level. For example, Agriculture Development Support to Seila (ADESS), a national sector programs for agriculture and rural infrastructure development operated through Seila mechanisms in selected provinces is funded by IFAD. To complement these sources of funds, RGC requested support from the International Development Association (IDA), through the proposed RILGP (2003-2006), to Phase II of the National Seila Program.
2. Objectives

The development objective of the proposed Rural Investment and Local Governance Project is to contribute to rural development and poverty reduction through support to provision of priority public goods and services at the provincial and commune levels, as well as promote good local governance through support of decentralized and deconcentrated participatory local governance systems at the commune and provincial levels.

3. Rationale for Bank’s Involvement

The Bank’s continued involvement in the Seila Program during phase II, through the proposed RILGP, will provide the following contributions:

- help to bring together previously divergent donor-funded efforts and focus on scaling-up and making sustainable our collective rural development efforts in order to achieve results well beyond the sum of what we could achieve separately.
- help to support initial implementation of decentralization reforms and contribute to the refinement, drawing lessons from the initial implementation experience, of the institutional arrangements and processes for local development at the commune level.
- help to elevate the policy dialogue regarding the ongoing deconcentration reforms to ensure lessons from experience under Seila for adoption of institutional structures and processes, and their potential impact on rural development outcomes, are given appropriate consideration.

4. Description

The proposed Project will support, through Phase II of the National Seila Program, the newly decentralized planning process at the commune level, and a pilot of a deconcentrated planning process at the provincial level, as well as the provision of grants for priority rural infrastructure and services identified through such planning processes. More specifically, the proposed Project will support:

(i) integration of the National Seila Program into the new local government institutional structures and development planning, budgeting and implementation processes at the commune level established as part of the recent decentralization reforms; and
(ii) technical assistance for strategic studies to inform the ongoing dialogue on deconcentration reforms, as well as to review and strengthen the regulatory framework for decentralization.

The proposed Project will provide support, over a four-year period (2003-2006), to the following two components:

- Component 1 – Local Planning and Investment; and
- Component 2 – Policy Support and Project Management

The proposed IDA Credit, totaling US$ 22 million, will finance principally sub-project investments at the commune and province level, as well as some strategic studies and program support costs. The associated planning activities, technical assistance and capacity building at the national, provincial and commune levels will be co-financed in parallel by the Partnership for Local Governance (PLG), a multi-donor trust fund administered by UNDP, as well as by Royal Government of Cambodia (RGC) domestic resources. The IDA Credit would cover technical assistance, capacity building and incremental operating costs in the final year of implementation.

A. Local Planning and Investment Component will support in 15 provinces, through the
Commune/Sangkat Fund (C/SF). (i) the newly established decentralized planning process at the commune level, including development of five-year Commune Development Plans (CDP), three-year rolling commune investment programs (CIP) and annual commune budgets, and (ii) grants for commune-level investments in public goods and services identified and prioritized through the participatory local planning process.

B. Policy Support and Project Management Component will support the capacity building, technical assistance, buildings and equipment, and incremental operating costs at national, provincial and commune levels of implementing Components 1. More specifically, the component will finance the provision to national and provincial institutions the works, goods (such as vehicles, and office, communications and other equipment) and consulting services necessary to implement their respective project responsibilities. At the provincial level, the IDA Credit will be utilized primarily to procure goods and works for PRDC ExCom units and Provincial Treasury to strengthen their capacity to support C/SC development planning and implementation of commune-level sub-projects. At the national level, the IDA Credit will finance office equipment and vehicles, as well as fund workshops focused on reviews of the Seila systems and proposed updates. In addition, consulting services will be financed for the purposes of conducting strategic studies related to decentralization and deconcentration reforms, socio-economic follow-up studies, mid-term and final project evaluations, monitoring quality of procurement support by TSS to C/SC, and an annual independent audit of project accounts.

5. Financing

<table>
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<td>IDA</td>
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<td>PARTNERSHIP FOR LOCAL GOVERNANCE (UNDP, DFID, SIDA)</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
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6. Implementation

In the interest of government ownership and sustainability, the RILGP will work within existing government institutions and structures, and no project-specific entities will be created for RILGP implementation. Rather, the project will be implemented within the institutional arrangements of the National Seila Program, which at the provincial level employ the Rural Development Structures mandated through the Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program, and at the commune-level have been integrated into the institutional structures which have emerged from the recent decentralization reforms.

The institutional structures employed by the Seila Program comprise the following levels:

- Seila Task Force (STF) and the Seila Task Force Secretariat (STFS) – National Level
- Provincial Rural Development Committee (PRDC)
- Commune/Sangkat Council (C/SC)
- Planning and Budgeting Committee of the C/SC (PBC)

At the national level, the Seila Program is coordinated by the Seila Task Force (STF), and inter-ministerial task force which mandate is established through the Sub-Decree on Establishment and Operations of Seila Task Force (No. 57 ANKR BK dated 28 June 2001) STF is chaired by the
Senior Minister of Economy and Finance and comprises representatives of key ministries, including Interior; Women’s and Veteran’s Affairs, Water Resources and Meteorology; Agriculture Fisheries and Forestry, Rural Development; Planning and the Council for Administration Reform Director-General, Department of General Administration, Ministry of Interior; Secretary - Deputy Secretary General of CDC. Member ministries of the Seila Task Force have Ministerial Focal Points within their Ministries to facilitate and assist the work of the STF Members. The STF is responsible for oversight of the Seila Program, including policy design, resource mobilization and monitoring. STF is supported by a Technical Secretariat (STFS) housed in the Council for Development of Cambodia, managed by a Secretary General and a Deputy and, because it is viewed as a transitional institution, staffed by secondments from other Ministries and institutions.

The STFS is responsible for execution of the Seila Program, and is charged with managing the implementation of all components of the RILGP. At present, STFS receives significant support to execute its functions from PLG in the form of expatriate advisors. The PLG donors to the Seila Program are currently evaluating appropriate options to reduce the level of external technical assistance and move progressively toward complete national execution of the Program. As a result, the oversight responsibilities at the national level will be transferred from PLG to STFS in a phased manner over the period 2002-2005.

STFS has two units:

- Program Operations Unit (POU), responsible for overseeing program execution functions, is divided into three offices: (i) Contract Administration Office (CAO), (ii) Financial Administration Office (FAO); and (iii) Training and Extension Office. The POU in STFS will serve as the implementation unit for the proposed RILGP.
- Policy Monitoring and Evaluation Unit (PMEU), is divided into three offices; (i) the Policy and System Office (PSO), responsible for development and dissemination of policy lessons, decentralization and deconcentration policy analysis and systems development; (ii) Monitoring and Evaluation Office (MEO), responsible for overall monitoring and evaluation of the Seila Program; and (iii) Information and Public Relations Office (IPRO). The PMEU in STFS will take the lead on key policy and M&E aspects of RILGP, as well as coordinate disclosure of key RILGP documents.

For Component 1, Local Planning and Investment at the Commune Level, the main implementing entity at the commune level will be the newly elected Commune/Sangkat Councils (C/SC), which under the Law on the Administration of the Commune/Sangkat, are empowered to maintain public order and security, manage public services, enhance public welfare, and promote development, as well as manage commune finances. The first C/SC were elected to a five-year mandate in February 2002, and are comprised of five to eleven members depending on the population of the commune. Candidates for the C/SC stand for election on a proportional representation and party list basis, such that more than one party can be represented. The commune/sangkat chief is the individual who receives the most votes on the majority-party list. If one party carried the entire council, the first and second deputies are those individuals from that party with the second and third highest number of votes. If candidates of more than one party receive sufficient votes, specific rules are followed to select deputies from the candidate list of the other party.

While territorial villages have no direct representation on the C/SC, article 27 in the Law on the Administration of Commune/Sangkat, allows several avenues for village-level representation and participation in the commune development planning process. The most extensive of these is through the establishment of a Planning and Budgeting Committee (PBC), which is responsible to assist the
commune chief to conduct the commune development planning process and to draft the Commune Development Plan, Commune Investment Plan and commune budget. The Inter-Ministerial Prakas on Commune/Sangkat Development Planning dated 7 February 2002 defines the composition of the PBC to include the commune chief as chair and the commune clerk as secretary, as well as members including: three representatives from the elected C/SC selected by the chair, 2-4 village representatives including both genders selected by the chair; and two representatives, one of each gender, selected by the C/SC from the village authority or, for villages with village development committees (VDC), one representative each from the village authority and the VDC consisting of a man and a woman. VDCs are formed through an informal electoral process at the village level conducted in accordance with the procedures outlined by the Ministry of Rural Development, which allows anyone in the village to stand for election, and guarantees that some of the elected VDC members must be women.

At the provincial level, under the recent decentralization reforms, the Provincial Governor is responsible for mobilizing and coordinating provincial departments of line ministries to support and supervise the C/SC. More specifically, the Provincial Governor is responsible to establish a development planning and support system through provincial department staff. This includes:

- Department of Planning (PDOP) which is responsible to conduct a technical review of CDPs; provide the C/SC with methodological guidance on the planning process, train planning trainers (who include provincial and district staff (PFT and DFT)) and councilors, commune clerks and NGOs; and provide technical oversight of training;
- Department of Local Administration (POLA), which under the decentralization regulatory framework is the single interface to the C/SC in all contacts with provincial administration, is responsible to instruct C/SC on compliance with planning (and other) regulations, and assist C/SC in preparation, implementation and monitoring of CDP. The Provincial and District Facilitation Teams (PFT and DFT), under the Seila Program, will be managed by the POLA Director and will provide training and facilitation support to the commune planning and implementation process, as well as facilitate the communication between Commune/Sangkat Councils and Provincial/Municipal authorities.
- Department of Rural Development (PDRD) which is responsible to provide technical assistance to C/SC formulation and implementation of projects. The Technical Support Staff (TSS) under Seila are managed by the Director of PDRD and provide C/SC with technical advise on project preparation, supervise bidding processes, and certify works carried out under contract to the C/SC.
- Department of Economy and Finance (PDEF) will be involved with the PT staff in providing training to C/SC in the Commune Fund financial management procedures
- Provincial Treasury (PT) will be responsible for accounting functions and will cashier functions for the C/SC in the management of the C/SF

Under the earlier phase of the Seila Program, similar types of support to the commune level had been provided through the Provincial Rural Development Committee (PRDC), one of the rural development structures of the RGC, and its Executive Committee (ExCom), both chaired by the Provincial Governor. However, given the upcoming deconcentration reforms, the status and composition of the PRDC and its ExCom are not clear at present. In future, the new Organic Law on Deconcentration will define the structure and function of the provincial and district administration, including the PRDC. In the interim, a recent instruction from the Seila Task Force, Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program (No. 292 STF dated 8 November 2002), provides sufficient clarity of the PRDC structure and function for implementation of the RILGP
The PRDC Executive Committee, which is charged to conduct the day-to-day work of the PRDC, is chaired by the Provincial Governor, with the Deputy Governor as the 1st Deputy Chair and the Director of the Provincial Department of Rural Development as the 2nd Deputy Chair. The membership of the PRDC comprises: (i) the Directors of the Provincial Department of Planning, Economy and Finance, Agriculture, Forestry and Fisheries, Water Resources and Meteorology, Women’s and Veterans’ Affairs, and Treasury, and (ii) the Chief of the Unit of Local Administration.

Four management units are established under the PRDC Executive Committee as follows.

- Contracts Administration Unit, supervised by PDOP, including two key areas of responsibility: (i) contracts administration, and (ii) monitoring and evaluation, and information
- Local Administration Unit, supervised by POLA, including three key areas of responsibility: (i) administration, (ii) local capacity building, and (iii) monitoring and evaluation, and information for the C/SC.
- Technical Support Unit, managed by the Director of PDRD, includes three main areas of responsibility: (i) assist the C/SC to carry out sub-project feasibility studies, prepare designs, estimate costs and prepare sub-project proposals for inclusion in C/SC Development Plans and Budgets, (ii) assist the C/SC to manage competitive bidding, award contracts, monitor and supervise implementation of sub-project activities and certify quantities and quality of works implemented by contractors, and (iii) provide technical advice to the Provincial/Municipal Governor and the PRDC Executive Committee on matters related to implementation of sub-projects by the C/SC; and
- Finance Unit, managed by the Director of PDEF as chief and the Chief of Provincial Treasury as deputy chief, including two key areas of responsibility: (i) provincial/municipal finance tasks, and (ii) C/S Fund tasks.

7. Sustainability

One key impetus of the Seila Program from RGC’s perspective is that it offers a cohesive framework, operating within regular government institutions and with standard government processes, through which donor funds can be channeled. This reduces the fragmentation and proliferation of numerous and competing donor-specific approaches which can be serious impediments to sustainability. Because it focuses on both delivery of public goods and services, and development of the endemic institutions, systems and processes for efficient and effective delivery of these public goods and services, prospects for sustainability of the Seila Program after donor funds diminish are good.

Indeed, at the commune level, the Seila systems and processes piloted under the first phase have already been incorporated, for the most part, into the recent decentralization reforms, and the Seila Program is supporting the initial implementation of the newly decentralized institutional structures and processes. Prospects for sustainability are good. In terms of sustainable financing, permanent arrangements for transfers from the national level to the communes is assured by the Sub-decree on Establishment of the Commune/Sangkat Fund. The C/SF was initially capitalized from external sources, through the Seila Program, and domestic revenues. The contribution from the RGC budget in 2002 was US$5 million (20 billion Cambodian Riels), or 1.2 percent of projected recurrent domestic revenue. For 2003, the RGC has allocated the equivalent of US$ 10.25 million (47.8 billion Cambodian Riels), or 2.0 percent of recurrent domestic revenue. In line with the Medium-Term Expenditure Framework, the domestic contribution to the C/SF is expected to grow to 2.5 percent of projected recurrent domestic revenue, or US$ 12 million by 2004, and may grow further thereafter. In addition, options for own-source revenue for C/SC are being studied and are expected to be put in place during the first five-year mandate of the C/SC.
At the province level, the institutional arrangements, systems and processes being piloted under Seila are informing the ongoing discussions on deconcentration reforms. It is likely that these arrangements, systems and processes will be incorporated, to a large extent, as part of the upcoming reforms, and thus prospects for sustainability are good.

8. Lessons learned from past operations in the country/sector

Two recent reviews—an OED review of Community Driven Development Approaches in South East Asia, and a QAG Review of East Asia Rural Poverty Reduction Projects—as well as the experience with related projects and programs in Cambodia offer the following lessons, which have been reflected in the project design:

- Past rural development efforts in Cambodia have been supported mainly through stand-alone projects, which have typically neglected the broader policy and institutional aspects of poverty reduction, and have been plagued by serious financial and institutional sustainability problems.
- Employing an approach which bypasses intermediate levels of the government, with funds going directly from the national level to the villages, outside the normal budgetary cycles, poses a limitation on replicability and scaling-up.
- Sustainability can only be achieved over the long term by gradually “mainstreaming” poverty reduction efforts within the regular operations and processes of the national and sub-national government institutional structures.
- Bank fiduciary and safeguard policies should be applied as simply and flexibly as possible, and integrated to the fullest extent possible into the regular government systems and processes.
- Participatory approaches, such as employed in the Seila Program, have been found to be important elements of effective rural poverty reduction efforts. Rather than treating poor people as targets of poverty reduction efforts, participatory approaches give communities an active participatory role in project selection, design and implementation of local development activities of a scope that is within the management and capacity of the communities. These approaches work best, and are most sustainable, when they link participation, with good governance and decentralization.
- Prospects for sustainable operation and maintenance of the infrastructure constructed under sub-projects are positively effected through sufficiently high rates of beneficiary contributions, as well as clearly articulated institutional roles and responsibilities and adequate financial arrangements.
- Thoughtful reliance on high quality (international and local) technical assistance is an effective way to develop sufficient institutional and technical capacity at the local level.
- Sufficient analytical focus is needed in monitoring the project’s process (participation, poverty targeting, transparency), quality of outputs (both infrastructure “hardware” and policy and institutional “software”) as well as long-term impact (poverty reduction).

9. Environment Aspects (including any public consultation)

Issues:

The proposed RILGP’s focus is on commune-level small-scale infrastructure to be identified during project implementation through a participatory process at the commune level. Based on the experience under the first phase of the Seila Program, sub-project investments will be less than $10,000 each and likely to include, inter alia, small-scale water supply (wells), small bridges, road improvements such as leveling or resurfacing of community tracks and roads, repair of irrigation infrastructure, and small community buildings. The environmental issues arising from these sub-projects are expected to be minor and easily mitigated with known management and/or construction techniques. In most cases the most important environmental mitigation measure will be good siting decisions.
During preparation the Bank task team reviewed possible investments eligible under the project and identified specific environmental concerns associated with each investment type. Any adverse impacts are likely to be short-term in nature and highly localized. Possible impacts from small-scale infrastructure projects depend on the specific investment type and location but may include: dust and noise generation during construction, impacts on local drainage and water quality; localized land clearing resulting in soil erosion during construction; and solid waste disposal issues. The project is not expected to affect any critical natural habitats nor is it expected to trigger the Bank's policy on pesticides or forestry. The possibility that these policies would be triggered has been reviewed during preparation and it was confirmed that it is unlikely that these policies would be triggered. Nevertheless, specific review criteria to be used during implementation have been developed to ensure these issues are taken into consideration during sub-project planning and selection.

The overall project approach is to fully integrate environmental considerations into sub-project selection and review procedures. This approach is both practical and consistent with procedures adopted by Community Driven Development type projects recently financed by the Bank. The approaches used in other projects have been reviewed and have informed the development, during preparation, of simple guidelines for screening sub-projects and mitigating possible environmental impacts. A number of recent projects have developed similar guidelines which have been reviewed and adapted for the needs of this project. This approach is in line with the proposed scale of the sub-project investments, and is expected to generate a better understanding and local ownership of environmental management programs.

Detailed sub-project environmental review procedures were drafted, reviewed at appraisal, and were found satisfactory.

The project addresses environmental concerns in four closely related ways. First, community facilitators will assist communities in identifying environmental and natural resource management priorities as part of the initial community planning discussions. Second, as communities begin to identify options for sub-projects they will be given access to information on potential adverse impacts and siting considerations for minimizing impacts. Third, once sub-projects are identified, design teams will use standard technical designs which take into consideration environmental concerns. Fourth, the contractors responsible for building sub-projects will be required to follow environmental clauses specified in construction contracts. Site-specific management or mitigation plans, as appropriate, will be formulated during the sub-project design process. The project as a whole would be guided by simple reference materials which identify common risks and possible mitigation measures suitable for small-scale rural infrastructure sub-projects. EAs will be prepared only for sub-project of specific types, which pose relatively higher risks, such as new roads or new irrigation systems.

A draft of Environmental Analysis and Sub-Project Review Procedures was prepared and submitted to IDA in November 2002. No comments were received during the period of public disclosure of the draft. The final version of this document was submitted formally to IDA at Negotiations, and has been adopted by RGC and included in the Project Implementation Manual.

10. List of factual technical documents:
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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

Tables, Charts, Graphs:

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